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STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRISEMESTER 3, 2021/2022

BFN 1024 - PRINCIPLES OF FINANCE

7 October 2022
9.00am-11.00am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of FOUR (4) pages (including this cover page).
2. Answer ALL questions.
3. Please write all your answers in the **Answer Booklet** provided.

Question 1

a) Explain the main objective of corporate finance. **(6 marks)**

b) Guest Berhad has pension liablity of RM 800 million that must be paid in 20 years. If the company discount rate is 8.2%, what is the current value of the liability? **(5 marks)**

c) What are the portfolio weights for a portfolio that has 180 shares of Stock A that sell for RM45 per share and 140 shares of Stock B that sell for RM27 per share? **(4 marks)**

d) You have RM10,000 to invest in a stock portfolio. Your choices are stock X with an expected return of 14% and Stock Y with an expected return of 10.5%. If your goal is to create portfolio with an expected return of 12.4%,

i. how much money will you invest in X? **(5 marks)**

ii. how much money will you invest in Y? **(5 marks)**

(Total: 25 marks)

Question 2

a) Briefly explain why NPV is more superior than other models for capital investment decision? **(4 marks)**

b) Smart Berhad is planning to expand business to the following countries:-

Project A: Destination Indonesia. Initial investment RM 280,000. Expected cash flow of RM190,000 at year 1 and RM170,000 at year 2. The required rate of return is 10%.

Project B: Destination Turkey. Initial investment RM 390,000. Expected cash flow of RM 270,000 at year 1 and RM 240,000 at year 2. The required rate of return is 20%.

Project C: Destination Vietnam. Initial investment RM 230,000. Expected cash flow of RM160,000 at year 1 and RM 190,000 at year 2. The required rate of return is 15%.

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Note: Assume corporate discount rate is 10%.

i. Calculate NPV of each projects **(18 marks)**

ii. Which project should you advice? Explain your answer. **(3 marks)**

(Total: 25 marks)

Question 3

a) Lloyd's common stock has a beta of 1.5. If the risk-free rate is 4.5% and the expected return on the market is 12%, what is the bank cost of equity?

(6 marks)

b) Air Asia Berhad (AA) has a debt-equity ratio of 2. Its weighted average cost of capital is 12% and its cost of debt is 8%. If the company is subject to a corporate tax of 25%,

i) What is AA's cost of equity capital? **(5 marks)**

ii) What is AA's levered cost of equity? **(5 marks)**

iii) Would your answer be different if there was no corporate tax? Explain your answer. **(4 marks)**

iv) What would be its cost of equity and WACC if the AA change its debt-equity ratio to 1. **(5 marks)**

(Total: 25 marks)

Question 4

a) Briefly explain what is short-term financing? **(5 marks)**

b) Discuss four (4) ways to effective working capital management. **(10 marks)**

c) The Cash flows of project HIJ are expressed in real terms, while project KLM are expressed in nominal terms. If the inflation rate is 4% and discount rate is 15%, which project should you advice? Explain your answer. (Please refer to the Table below).

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The summary of the project is as follows:-

Year	Project HIJ (RM)	Project KLM (RM)
0	-50,000	-65,000
1	30,000	29,000
2	25,000	38,000
3	20,000	41,000

(10 marks)

(Total: 25 marks)

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